

Message Text

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TO AMEMBASSY JAKARTA

C O N F I D E N T I A L STATE 218537

E.O. 11652: GDS

TAGS: ETRD, EINV, ID

SUBJECT: IBM IN INDONESIA: APPEAL TO PRESIDENT SUHARTO

REF: JAKARTA 11817

1. DEPARTMENT WAS VISITED SEPTEMBER 7 BY IBM VICE PRESIDENT HOWARD FIGUEROA AND JOHN EWEN, HEAD OF PT IBM INDONESIA, IN ORDER TO GIVE US COPY OF A LETTER DATED SEPTEMBER 6 ADDRESSED TO PRESIDENT SUHARTO FROM FRANK CARY, CHAIRMAN OF THE BOARD OF IBM. THE LETTER HAD BEEN PRESENTED THE SAME MORNING TO INDONESIAN EMBASSY ECONOMIC COUNSELOR SUMANTRI IN THE ABSENCE OF THE AMBASSADOR, FOR TRANSMITTAL TO JAKARTA. SUMANTRI SUBSEQUENTLY ADVISED EWEN THAT LETTER WOULD BE TRANSMITTED TO JAKARTA BY POUCH ON SEPT 9 AND IBM ASKED THAT EMBASSY NOT REVEAL KNOWLEDGE OF LETTER TO GOI OFFICIALS PRIOR TO ANTICIPATED ARRIVAL IN JAKARTA APPROXIMATELY MIDDLE OF THIS WEEK.

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2. IN REQUESTING PRESIDENT SUHARTO'S INTERVENTION IN THE IBM PROBLEM THE LETTER FOLLOWS THESIS ADVANCED IN IBM'S LEGAL BRIEF SUBMITTED TO THE CHIEF JUSTICE RE DECISION ON EXTENSION OF ITS BUSINESS LICENSE AFTER THE END OF 1977. THE LETTER ALSO ASKED THAT R.A. PFEIFFER BE GIVEN OPPORTUNITY TO MEET WITH THE PRESIDENT TO DISCUSS THE CASE

PRIOR TO A FINAL DECISION.

3. DEPARTMENT PLEASED TO HEAR THAT IR SOEHOED OF BKPM (REFTEL) AGREES WITH EARLIER SUGGESTIONS MADE TO IBM THAT AN APPROACH TO PRESIDENT SUHARTO IS NOW THE ONLY RECOURSE. EMBASSY WILL BE ADVISED REGARDING NEXT STEPS AS SOON AS WE HEAR FURTHER FROM IBM.

4. TEXT OF LETTER TO PRESIDENT SUHARTO FOLLOWS:

DEAR MR. PRESIDENT:

I RESPECTFULLY REQUEST YOUR INVOLVEMENT IN THE DECISION ON IBM'S CONTINUED OPERATION IN INDONESIA AFTER DECEMBER 31, 1977.

HAVING OPERATED IN INDONESIA FOR 40 YEARS, WE ARE TODAY A MAJOR SUPPLIER OF SOPHISTICATED DATA PROCESSING EQUIPMENT WITH CUSTOMERS SUCH AS JAKARTA CITY ADMINISTRATION, THE ARMY, PERTAMINA AND GARUDA. WE EMPLOY 250 PEOPLE OF WHOM ALL BUT 10 ARE INDONESIAN CITIZENS. INDONESIA IS AMONG THE LEADERS IN THE USE OF COMPUTER TECHNOLOGY IN SOUTHEAST ASIA, AND WE VIEW OUR ROLE IN THE TRANSFER OF THIS COMPUTER KNOW-HOW TO THE COUNTRY WITH SATISFACTION.

IN 1973, P.T. IBM INDONESIA WAS GRANTED A RENEWAL OF ITS BUSINESS LICENSE WHICH EXPIRES AT THE END OF THIS YEAR.
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ALTHOUGH ARTICLE 6A OF THE DOMESTIC CAPITAL INVESTMENT LAW (ACT 6 OF 1968) SPECIFIES THAT TRADING COMPANIES MUST CEASE OPERATION ON JANUARY 1, 1978, WE BELIEVE THAT THAT NATURE OF IBM'S BUSINESS, WHICH IS HIGHLY COMPLEX AND SERVICE ORIENTED, DOES NOT FIT THE DEFINITION OF TRADE AS COMMONLY USED AND AS INTENDED BY THE LAW.

LET ME ASSURE YOU THAT IBM DOES UNDERSTAND THE NATIONAL ECONOMIC OBJECTIVE TO PLACE DOMESTIC TRADE IN THE HANDS OF INDONESIAN CITIZENS. IN RECOGNITION OF THIS OBJECTIVE, WE HAVE AGREED TO DISCUSS THE TRANSFER TO INDONESIAN AGENCIES OF THE TYPEWRITER, DICTATING EQUIPMENT, SUPPLY AND DATA CENTER ASPECTS OF OUR INDONESIAN OPERATIONS. WE BELIEVE THAT IT IS ESSENTIAL THAT WE MAINTAIN OWNERSHIP AND CONTROL OF THE DATA PROCESSING PART OF OUR BUSINESS. FULL CONTROL HAS MADE IT POSSIBLE TO SUCCESSFULLY MANAGE THE INTERDEPENDENCIES OF IBM'S 30 RESEARCH AND DEVELOPMENT LABORATORIES AND 43 MANUFACTURING PLANTS TO THE ADVANTAGE OF CUSTOMERS IN THE MORE THAN 120 COUNTRIES IN WHICH WE DO BUSINESS. A SIGNIFICANT RESULT HAS BEEN THE SHARING OF RESOURCES AND HIGH TECHNOLOGY KNOW-HOW ACROSS NATIONAL BORDERS.

WE HAVE HAD EXTENSIVE DISCUSSIONS WITH OFFICIALS OF YOUR MINISTRY OF TRADE AND INVESTMENT BOARD. IT IS OUR BELIEF THAT IBM'S BUSINESS CAN BE CLASSIFIED UNDER ARTICLE 6C OF THE ACT, WHICH WOULD ENABLE US TO CONTINUE TO SERVE INDONESIA. A LEGAL BRIEF HAS BEEN SUBMITTED TO THE SUPREME COURT OF INDONESIA IN SUPPORT OF THIS INTERPRETATION.

WHILE WE BELIEVE THERE IS A BASIS UNDER THE LAW FOR GRANTING AN EXTENSION TO IBM'S BUSINESS LICENSE, WE UNDERSTAND THAT SUCH A DECISION INVOLVES MATTERS OF POLICY FOR THE REPUBLIC OF INDONESIA.

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WE ARE ANXIOUS TO CONTINUE SERVING OUR CUSTOMERS AND THROUGH THEM THE PEOPLE AND COUNTRY OF INDONESIA. IN RECOGNITION OF THE IMPORTANCE OF A TIMELY RESOLUTION OF A MATTER INVOLVING INDONESIA GOVERNMENT POLICY, YOUR PERSONAL INVOLVEMENT WOULD BE GREATLY APPRECIATED.

I WOULD LIKE MR. R.A. PFEIFFER, JR., CHAIRMAN OF THE BOARD, IBM WOULD TRADE AMERICAS/FAR EAST CORPORATION, TO PRESENT THE FULL STORY OF IBM'S ROLE IN INDONESIA TO YOU IN PERSON BEFORE A FINAL DECISION IS MADE. I, THEREFORE, REQUEST AN OPPORTUNITY FOR MR. PFEIFFER TO HAVE AN AUDIENCE WITH YOU AT YOUR EARLIEST CONVENIENCE. SINCERELY, FRANK T. CARY. VANCE

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